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Rethinking climate scenarios

Quarterly report Sustainable Investing | Fourth Quarter 2024

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Introduction

'Drill, baby, drill'

Dennis van der Putten

Chief Sustainability Officer

Trump's first presidential decision is to stop committing to the Paris climate agreement. He is not alone in his decision. Large and international asset managers are stopping supporting initiatives such as Climate Action 100+ or Net Zero Asset Owners/Managers Alliance. This move is in stark contrast to what is needed in the real world.

2024 is officially the warmest year ever recorded. It was even so warm that the earth has passed the 1.5℃ mark of warming. This was a (sub-)goal of the Paris climate agreement (below 2℃ as much as possible).

The warming is caused by a variety of factors, such as the burning of oil, gas and coal. The weather phenomenon El Niño has also contributed. A notable reason for the warming is pollution regulations. For instance, cargo ships now emit less sulphur. These sulphur particles in the air reflect sunlight, which helps limit warming. As a result, there is an unintended consequence of improving air quality.

The consequences of climate change are becoming increasingly noticeable, also financially. According to reinsurer Munich RE, the damage from climate disasters, such as hurricanes, was about 310 billion euro in 2024. Of these, more than half were uninsured. The insurer sounds the alarm and indicates that all countries must take action to protect those that are most vulnerable to natural disasters.

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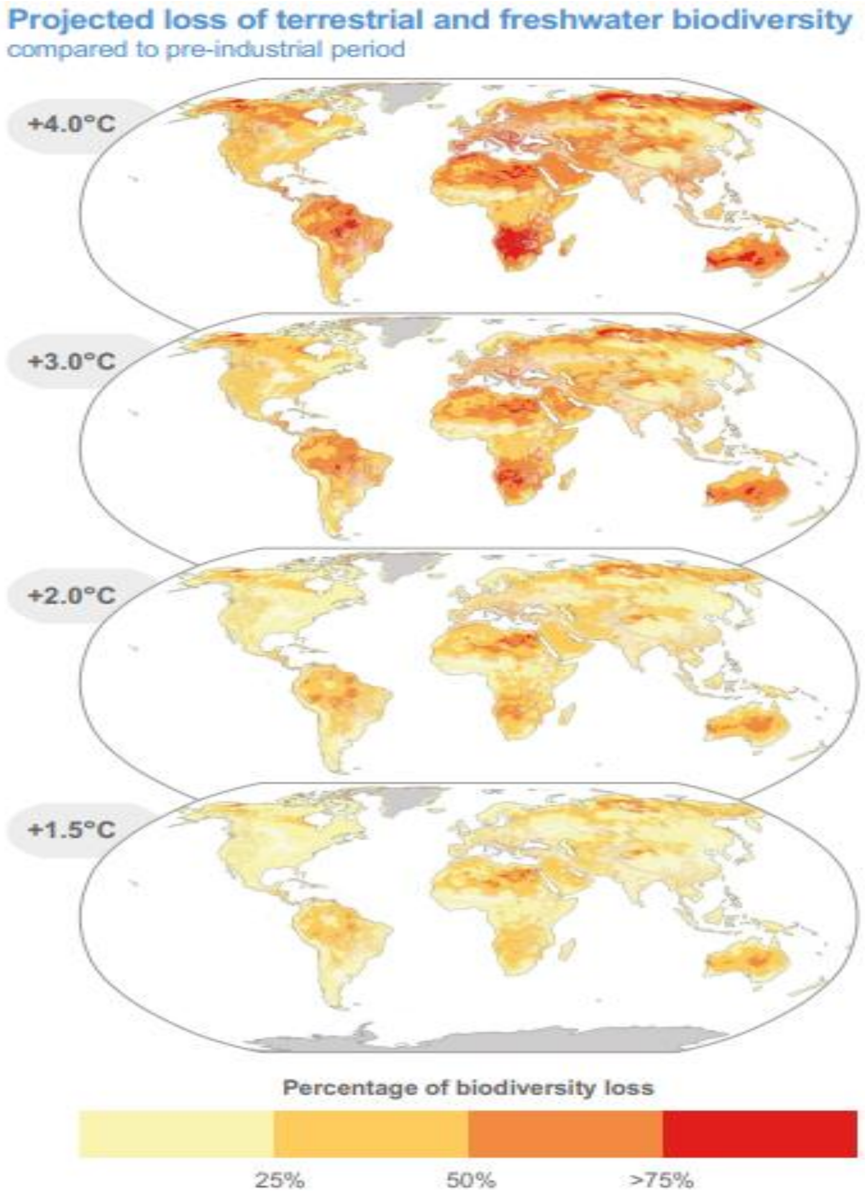
Introduction

Discord in the climate crisis: Eroding commitments while impacts intensify

At the same time, insurers are seeing increasing risks that are becoming uninsurable. California's largest home insurer canceled 7 out of 10 insurance policies in Pacific Palisades last year. The area that is currently heavily affected by forest fires. The total damage here is at least $57 billion. Most people are therefore forced to be uninsured.

On balance, we have never been so precise in measuring climate risks, causes and estimating consequences. Based on this information and models, there is still a change that we will meet the requirements of 1,5 degrees warming. IPCC member Bart van Den Hurk states: “if you look at that prediction in detail, you will see moral and political objections that are so great that implementation will never succeed in practice’. His view is supported by Trumps favourite ‘climate phrase’: ‘Drill, baby, drill’.



Source: IPCC Sixth Assessment Report, 2023

News and trends

Developments in the fourth quarter

In this chapter we describe the latest news and developments in the field of sustainable investing.

Launch of the Taskforce on Inequality and Social-related Financial Disclosures (TISFD)

In September 2024, the launch of TISFD marks a significant step towards addressing one of today's most pressing global challenges, addressing the rise of inequalities. With a similar mandate to the Taskforce on Climate-Related Financial Disclosures (TCFD) and Taskforce on Nature-Related Financial Disclosures (TNFD) respectively for climate and nature, this initiative aims to develop a comprehensive framework that enables businesses and investors to measure, manage, and disclose their social and inequality-related impacts, risks, and opportunities. By promoting greater transparency and a framework for uniform social disclosures, the Taskforce seeks to foster practices that contribute to fairer societies and stronger economies.

For investors, who are currently limited by the lack of consistent and comparable data on social factors, the TISFD represents the potential to navigate the increasingly urgent need to integrate social considerations into sustainable finance strategies. This is important to address the long-term systemic risks associated with rising inequalities, which are driving polarization and protectionist tendencies, increasing social unrest and political instability.

Publication of the OECD handbook on living incomes and living wages

In October, the OECD published its handbook on due diligence for enabling living incomes and living wages in agriculture, garment and footwear supply chains. These sectors were selected due to the significant prevalence of risks related to the non-payment of living wages or incomes. The handbook is a guidance document for businesses, with practical steps to apply the OECD due diligence framework to support living incomes and living wages in global supply chains. For investors, this represents an additional resource when engaging companies in those sectors to better understand what they are practically doing to make progress on this topic. By promoting living incomes and wages, companies can apply responsible business conduct, reduce worker exploitation, improve productivity, and strengthen long-term value creation and resilient supply chains. Moreover, access to a living wage or income directly supports the achievement of the 2030 UN Sustainable Development Goals (SDGs), particularly Goal 1 (No Poverty), Goal 8 (Decent Work and Economic Growth), and Goal 10 (Reduced Inequalities).

COP29 – UN Climate Change Conference Azerbaijan

The 29th UN Climate Change Conference was held in Azerbaijan in November and finance was a key theme in this edition. Nations agreed to a new global climate finance target of at least USD 300 billion per year by 2035, the New Collective Quantified Goal. This is meant to enhance support for developing countries and strengthen their capacity to adapt and mitigate the effects of climate change, although the mechanisms for disbursing funds and origin of the resources (public-private) are yet to be defined. On the carbon markets arena, there was also consensus for implementing a global carbon trading system managed by the UN. Which will provide traceability, transparency and safeguards to protect the environment and human rights. This system has the potential to be another enabler to reduce emissions and mobilize finance. Among the remaining gaps from this COP are an agreement to phase out fossil fuel subsidies, linking biodiversity and climate action, and stablishing energy efficiency targets from a national and sectoral perspective.

News and trends

Developments in the fourth quarter

Environmental Finance – Sustainability Data EMEA conference

During the Sustainability Data EMEA 2024 conference, hosted by Environmental Finance last October, a topic of discussion was the need to standardize ESG data under a common language for meaningful comparison. The International Financial Reporting Standards (IFRS) are addressing this challenge by developing standardized frameworks. However, it is anticipated that not all jurisdictions will adopt this language, therefore, a solution would be implementing a common translation mechanism that serves as an intermediate step towards achieving a common language in sustainability reporting.

The assurance of sustainability data emerged as another important point. The EU's Sustainable Finance Disclosure Regulation (SFDR) is pushing for comprehensive, high-quality data sets and necessitates advancements in the audit community to ensure reliable data. Particularly with the increase demand for corporates to disclose information on biodiversity and other natural capital aspects, which will require enhanced scrutiny and assurance.

The next phase of ESG data is expected to include a transition approach, where data providers include information to assess the credibility of transition plans and performance against these objectives. This shift involves complementing the current backwards-looking data with forward-looking information to help make investment decisions.

Update on the EU Deforestation Regulation (EUDR): Recent Developments

The EU has announced a 12-month delay in implementing the EUDR, now set to apply from December 2025 for large companies and mid-2026 for small businesses. This decision follows feedback from global stakeholders about compliance issues and groups facing economic risks, particularly smallholders.

The provisional agreement does not address the debated "no risk" category for countries with stable or increasing forest areas, alongside the existing "low", "standard", and "high" risk categories, which was newly proposed by the Parliament. The debate over the new "no risk" category relates to concerns that it could weaken the rules and allow deforestation-related products to enter the market. Critics worry it might make the regulation less effective, create unfair competition for producers in high-risk areas, and lead to inaccurate risk assessments. There's also concern that it could be used for greenwashing, with countries claiming to have low deforestation risk when they don't. This debate reflects the difficulty of balancing strong environmental protections with fairness and practical enforcement.

Additionally, as a response to feedback, the EU introduced a framework for international cooperation, prioritising smallholder support, human rights, and financing to promote a just and inclusive transition. While this update is helpful for addressing practical challenges, the delay in implementation is disappointing, as it slows the urgent action needed to combat deforestation and mitigate climate and biodiversity risks. For investors, this delay highlights the importance of maintaining dialogues with companies in relevant commodity sectors to accelerate the adoption of traceability systems and deforestation-free practices.

Our Cardano-led engagement initiative and partnership with Satelligence (further described in the Stewardship section) align with the regulation's objectives by urging companies to take proactive steps to address deforestation risks. These efforts remain critical for safeguarding long-term portfolio value.

News and trends

Developments in the fourth quarter

ESMA clarifies guidelines on fund names using ESG or Sustainability-related terms

On 13 December 2024, the European Securities and Markets Authority (ESMA) published a Q&A document addressing practical aspects of its Guidelines on fund names referencing ESG or sustainability-related terms. The Q&A provides key clarifications on green bonds, sustainable investments and controversial weapons:

1. PAB exclusions for green bonds

Investment funds using terms such as "Sustainability", "Environmental", or "Impact" in their names must generally exclude investments in companies that fall under the exclusions for EU Paris-Aligned Benchmarks (PAB). These exclusions apply to companies that:

a) are involved in activities related to controversial weapons or tobacco;
b) violate UN Global Compact (UNGC) principles or OECD Guidelines for Multinational Enterprises; and
c) generate significant revenue from activities such as the exploration, extraction, or distribution of fossil fuels or electricity production using fossil fuels.

Previously, there was market uncertainty about whether PAB exclusions applied to green bond issuers. ESMA's Q&A offers clarification, though practical implementation remains complex in certain cases. The key distinctions to be made for green bonds are:

a) European Green Bonds (Regulation (EU) 2023/2631): Bonds issued under this regulation do not require an assessment against PAB exclusions. Their high level of protection is ensured by the EU's robust legal framework.
b) Other Green Bonds: For other types of use-of-proceeds instruments, a look-through analysis is required. This analysis determines whether the activities financed by the bond comply with PAB exclusion criteria.
    - Activities explicitly excluded under the PAB criteria cannot be financed by these bonds.
    - Regardless of the bond's financing purpose, issuers who violate UNGC principles or OECD Guidelines are categorically excluded.

2. Clarity on "meaningful" investment in sustainable assets

Investment funds using "Sustainability"-related terms in their names must commit to investing "meaningfully" in sustainable investments as defined under the Sustainable Finance Disclosure Regulation (SFDR). A key question that arose was whether there would be a minimum threshold for funds to qualify as investing "meaningfully" in sustainable investments.

To ensure clarity and consistency among National Competent Authorities, ESMA has stipulated that funds cannot be deemed to be "meaningfully investing in sustainable investments" if less than 50% of their portfolio is allocated to sustainable investments.

This represents an interesting development by ESMA. While their initial draft guidelines proposed a clear 50% threshold, the final version shifted to a more subjective "meaningful"-test. However, this recent clarification appears to align with their original proposal, effectively reintroducing the 50% threshold. Some fund managers may welcome this move, as it offers greater clarity on regulatory expectations and reduces ambiguity regarding compliance.

3. Definition of controversial weapons

All investment funds using ESG-related terms in their names, including those referencing "Transition"-related terms, must generally exclude investments in companies involved in activities related to controversial weapons. In the absence of a clear definition of "controversial weapons" in the relevant benchmark regulation, ESMA references to Principal Adverse Impact (PAI) Indicator 14 from Annex I of the SFDR Level 2 Regulatory Technical Standards. This definition encompasses anti-personnel mines, cluster munitions, chemical weapons, and biological weapons.

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Theme in focus

Rethinking climate scenarios: A narrative-driven approach

Keith Guthrie
Head of Sustainability UK

Climate scenario analysis, a cornerstone in assessing climate-related financial risks, has faced increasing scrutiny over the past year. Despite its prevalence in the financial industry, critics argue that traditional quantitative models fail to sufficiently address the full spectrum of risks posed by climate change, undermining their effectiveness in supporting investment decision making. Conventional models often produce misleading outcomes for scenarios with 3℃ of global warming, significantly downplaying the severe societal and economic consequences that climate scientists predict.

These models fall short for two main reasons. Firstly, they underestimate systemic impacts. By focusing primarily on individual stock-level effects, they neglect broader economic challenges such as diminished productivity, reduced insurability, heightened uncertainty, and elevated inflation risks. These systemic issues have far-reaching implications for not only environmental stability and social equity but also for economic and hence market performance. Secondly, they inadequately assess physical risks. A lack of comprehensive data and flawed loss function methodologies limits the assessment of potential physical risks, restricting the timeframe for actionable insights and ignoring longer-term consequences.

Beyond “Better Modelling”

While improving existing models may seem like a solution, Cardano contends that no model can fully account for the complexities of climate change and its cascading effects on society, economies, and markets. These challenges include the unpredictable trajectory of climate change itself, shifting government policies and consumer behaviors in response to environmental pressures, and market responses across diverse asset classes and geographies. Attempting to predict these interdependencies creates an illusion of certainty in an inherently uncertain landscape.

A Narrative-Based Approach

Instead of refining quantitative models, we advocate for a narrative-based approach to scenario analysis. Narratives enable investors to explore extreme climate outcomes and their ESG implications without assigning unwarranted probabilities to specific scenarios. This method promotes resilience by asking, “How can we make portfolios more robust across diverse scenarios?”

Recent research, such as the USS/University of Exeter paper No Time to Lose – New Scenario Narratives for Action on Climate Change, supports this perspective. By focusing on medium-term climate contexts (to 2030), narratives can incorporate regulatory and consumer reactions to climate change, offering a more holistic view of risks and opportunities.

We have integrated this approach into our clients' UK TCFD reporting which has helped trustees make more informed decisions. Narrative-based analysis provides clearer insights into ESG risks, helping investors make informed decisions that align with long-term sustainability goals.

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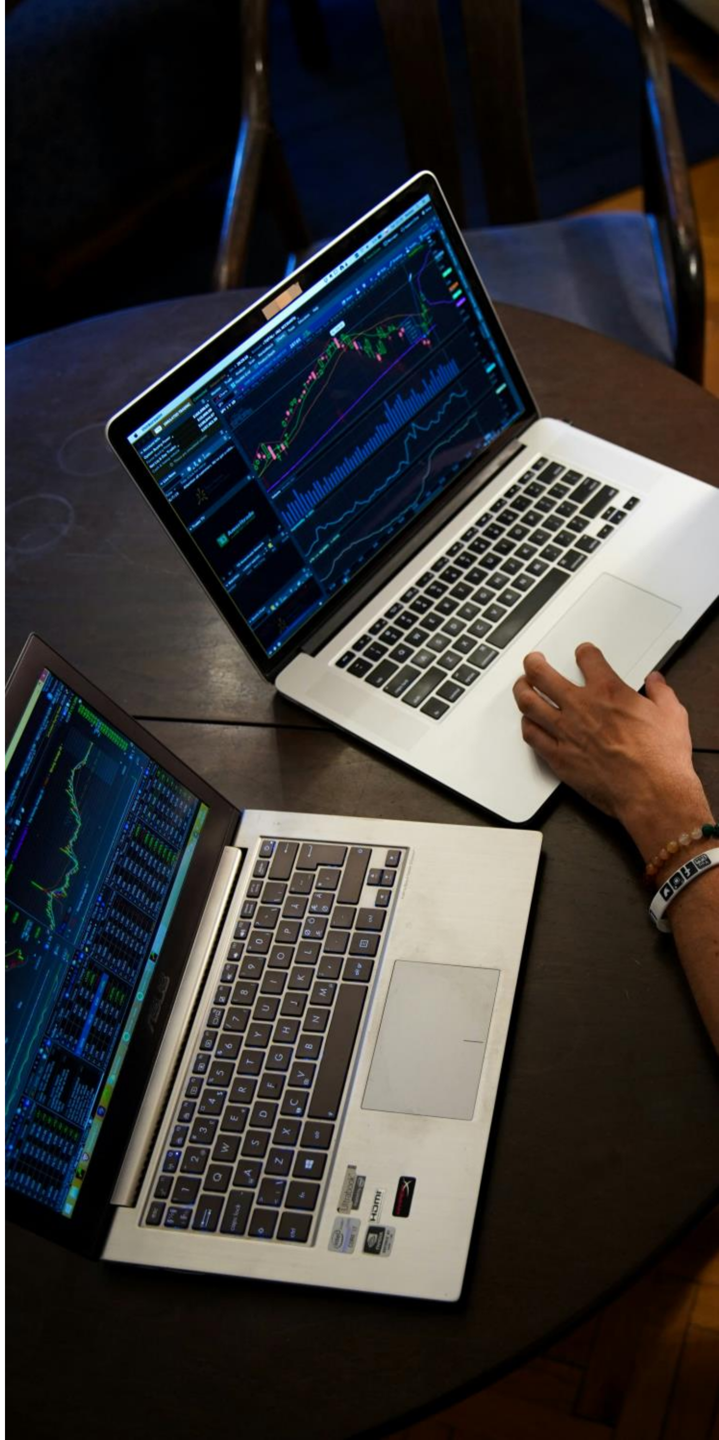


Theme in focus

Rethinking climate scenarios: A narrative-driven approach

A pivotal advancement in addressing climate-related financial risks lies in the ability to distinguish between "top-down" systemic risks and "bottom-up" asset-specific risks. This differentiation yields key conclusions:

- Systemic risks dominate: The most significant threats to long-term financial and societal outcomes stem from systemic risks, such as widespread economic instability and environmental degradation. Limiting warming to 1.5°C offers far better outcomes than a 3°C scenario.
- Diversification is insufficient: Systemic risks cannot be mitigated through traditional diversification strategies. They demand collective action and robust governance.
- Escalating risks in warmer scenarios: Higher warming levels exacerbate physical risks and lead to chaotic, unavoidable transition risks.

A Strategic Path Forward

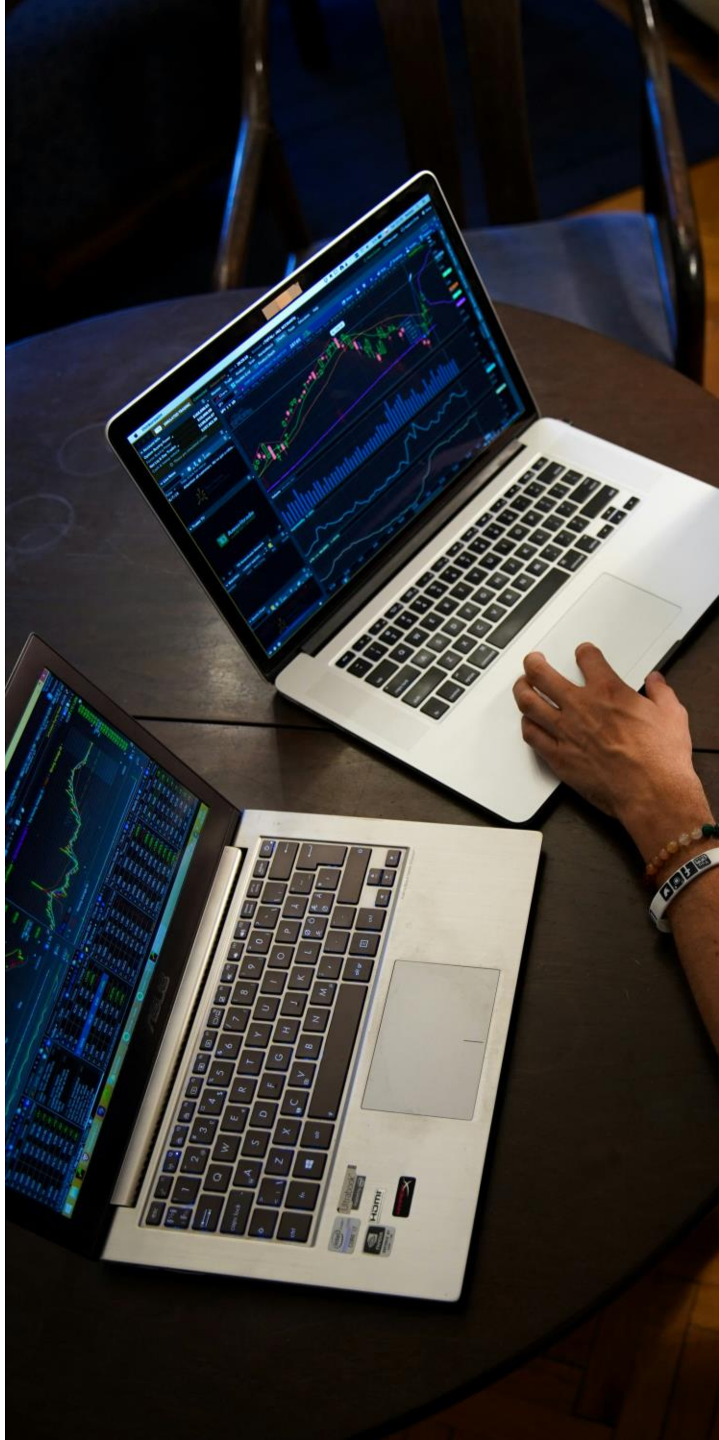
To support long-term financial stability—particularly for entities like pension funds, which have an enduring obligation to their members—it is imperative to prioritize strategies that reduce the probability of warming scenarios. This however requires a multifaceted, proactive approach:

- Collaborating for corporate transition: Investors must work collectively to engage with companies, encouraging them to adopt sustainable practices and transition to lower-carbon business models. This not only mitigates risks but also positions these companies as leaders in a rapidly evolving market.
- Advocating for policy change: Engaging with policymakers is essential to drive systemic transformation. This includes lobbying for stricter emissions regulations, incentives for renewable energy adoption, and international agreements that prioritize climate action.
- Investing in climate solutions: Allocating capital to innovative solutions—such as renewable energy projects, carbon capture technologies, and sustainable infrastructure—accelerates the global transition to a low-carbon economy while creating new growth opportunities.

Conclusion

The scrutiny of climate scenario analysis highlights the urgent need for a new approach to assessing financial risks. Traditional models fail to capture the systemic and long-term impacts of climate change, particularly as scenarios like 3°C warming become more likely.

Adopting narrative-based approaches offers a way forward, enabling investors to explore the broader implications of climate change and build resilience. Also, it fosters further collaboration among industries, governments, and investors. Engaging companies in low-carbon transitions, advocating for policy reforms, and investing in climate solutions are key strategies. By embracing narratives and collaboration, the financial industry can effectively navigate climate challenges and foster a sustainable future.



Stewardship in practice

The chemical sector's climate transition

Mariët Druif
Responsible Investment Officer

Building on this report's 'theme in focus' of climate scenario analysis, Cardano's stewardship activities are implemented to build portfolio resilience and address evolving risks and opportunities presented by climate change. Through our engagements, we address systemic challenges such as greenhouse gas emissions throughout the value chain, transition risks, and low-carbon solutions, helping to drive the changes needed across sectors to achieve a low-carbon economy.

The case studies presented here highlight our stewardship activities during the last quarter of 2024, demonstrating how we have engaged with companies to address climate issues. Also included is a summary of our satellite-based deforestation program, which relates to the critical role of forests as carbon sinks in mitigating climate change while also supporting biodiversity, and an update about our involvement in The Investor Initiative on Hazardous Chemicals.

The chemicals sector's critical role in the climate transition

The chemical sector is responsible for about 6% of the global greenhouse gas emissions[1]. The sector therefore plays a critical role in enabling the low-carbon transition.

To accelerate decarbonising the sector and to make the portfolio more robust across the different climate scenarios, Cardano has been participating in a ShareAction coordinated collaborative engagement since early 2023. The goal of this initiative is to encourage European chemical companies to implement a 1.5°C aligned climate transition plan with short-, medium- and long-term goals. The key objectives for these companies are to fully electrify their chemicals production processes, transition to renewable energy before 2050 and substitute petrochemical feedstocks by carbon neutral feedstocks before 2050.

In this quarter, dialogues were held with the CEOs of Yara and BASF, as well as senior management from Air Liquide.

- **Yara:** As one of the world's largest nitrogen fertilizer producers, Yara has demonstrated limited progress on key objectives, particularly in setting a Scope 3 emissions target. Following the filing of a shareholder resolution earlier this year, the investor coalition sent two letters to Yara's CEO addressing the company's refusal to adopt the resolution and requesting a meeting. During the CEO-level meeting, the coalition discussed the three core asks and emphasized their expectations for progress.
- **Air Liquide:** Similar concerns were raised with Air Liquide, one of the largest industrial gases providers globally. Despite years of engagement, the company has made minimal progress on key objectives. The discussions mirrored those with Yara, focusing on the company's lagging efforts in aligning with the coalition's expectations.
- **BASF:** As the world's largest chemical producer, BASF has made notable progress on the coalition's three key objectives and proactively offered the investor coalition a meeting with the company's new CEO. This shows BASF's willingness and level of importance it places on engaging with the investor coalition. Discussions centred on BASF's CSRD-aligned transition plan, specifically strategies for transitioning its asset base over the next decade and moving away from fossil fuel feedstocks.

All three companies cited their transition will be slower because of lagging enabling policies and concerns about losing competitive advantages in the global market. Given these concerns, the coalition also addressed the companies' lobbying strategies during the dialogues. Companies were encouraged to adopt greater transparency in their lobbying activities and to actively advocate for ambitious climate policies. Cardano believes the companies can do more to transition but also recognises the need for a supportive policy environment. In collaboration with ShareAction, we therefore submitted a response to the EU Delegated Act on Low Carbon Hydrogen consultation, advocating for prioritizing renewable hydrogen over low-carbon -such as carbon capture- alternatives.

Follow up letters were sent to the companies and the engagements will continue in 2025.

[1] Our world in data (https://ourworldindata.org/ghg-emissions-by-sector), 2023

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Stewardship in practice

Deforestation

Greta Fearman
Head of Stewardship

Stewardship to Address Deforestation

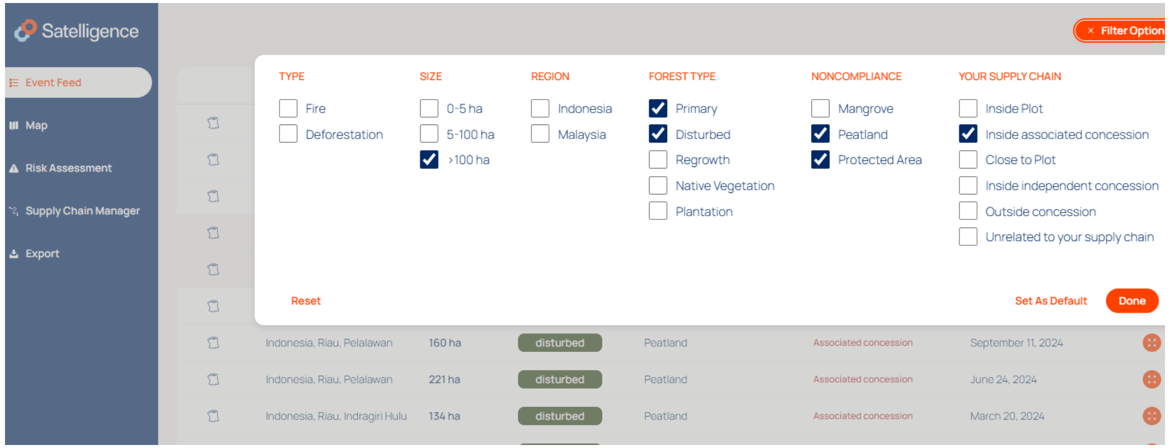
In 2024, the Cardano-led Satellite-based engagement towards deforestation-free supply chains programme made additional progress since previously reported. Deforestation is a systemic risk involving numerous sectors. Forest degradation driven by agricultural commodity production is one of the largest drivers of biodiversity loss, with sequential impacts on climate as a result.

- Deforestation is a significant source of greenhouse gas (GHG) emissions, accounting for approximately 6-12% of global annual emissions[1].
- Forests absorb approximately 7.6 billion metric tons of CO_2 annually through photosynthesis[2].

We therefore see this engagement initiative as essential to our stewardship programme. The goal of this collaborative initiative is to encourage investee companies to make progress on preventing forest loss and achieving sustainable, deforestation-free supply chains. Our group sources analytics from Satelligence, allowing us to detect and quantify forest cover loss, caused by palm oil commodity production.

In the second half of 2024, we acquired new data from Satelligence with an expanded scope. Previously, we received reports on deforestation incidents which were updated every six months, whereas we now have access to an online portal with data updated on an ongoing basis. With the new system we can focus on incidents that are occurring in protected reserves or on peatlands, among other sensitive areas, and see whether they occur in primary forest, disturbed forest or regrowth areas. This allows us to engage with companies about their links to deforestation in areas that are most impactful and to then encourage more robust remediation.

With the online portal, we also have a view into companies' suppliers and mills that do not comply with the EU deforestation regulation cutoff dates. Beyond palm oil data, we have also received jurisdictional risk maps for cocoa and soy from Satelligence. These help us assess how companies are addressing risk in the most critical regions in their supply chains.



Source: Satelligence (https://app.satelligence.com/)

Cardano's responsibility for the programme remains as the coordinator of the program. We take the lead in organizing investor group meetings, ensuring investors are progressing with individual company engagements, provide advice and strategic input, improve information sharing, and bring in external expert organizations to improve the knowledge of the group. Beyond our programme leadership role, we also continue to take the lead on the company engagements with Carrefour and Pepsi.

[1] https://www.worldwildlife.org/threats/deforestation-and-forest-degradation
[2] https://www.wri.org/insights/forests-absorb-twice-much-carbon-they-emit-each-year

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Stewardship in practice

Hazardous chemicals

Mariët Druif
Responsible Investment Officer

The investor initiative on hazardous chemicals

Many products rely on industrial chemical processes. However, certain chemicals used in these processes, such as PFAS [1], pose significant risks to public health. These risks include serious health issues like cancer, birth defects, and weakened immune systems. Additionally, these chemicals harm biodiversity. These hazardous chemicals contribute to systemic risks by fuelling public health and environmental crises. Despite these risks, chemical companies continue to use hazardous chemicals, heightening the likelihood of material financial risks due to regulatory action, liabilities, and reputational damage.

To address these challenges and reduce financial risks for investors, Cardano is actively involved in the Investor Initiative on Hazardous Chemicals (IIHC). This initiative, launched in 2023 and coordinated by the NGO ChemSec, facilitates dialogues with 31 companies. Its objectives are to: (1) Enhance transparency by disclosing the revenue share and production volumes of products that are hazardous chemicals or contain them (2) Publish time-bound phase-out plans for products that include hazardous chemicals and (3) Develop safer alternatives to these harmful substances. ChemSec benchmarks companies based on these objectives and related indicators, with a maximum score of 48 points.

Cardano co-leads the engagement with Dow and is actively involved in discussions with three other companies: DuPont, Arkema, and Syensqo. Dialogues were held with all companies during the first half of 2024, followed by questions and expectations sent in writing (except for Arkema). In November 2024, the investor group sent letters to all 31 companies involved in the initiative, urging them to commit to the objectives. Follow-up meetings with Dow and Syensqo were conducted in early December.

While the dialogues have been constructive, progress in transitioning to sustainable chemicals remains slow. Companies continue to rely heavily on producing hazardous chemicals rather than prioritizing the development of safer alternatives. The primary barriers include concerns about potential competitive disadvantages associated with increased transparency and claims by some companies that certain PFAS, including fluoropolymers, are not harmful to humans or the environment. A positive development is that DuPont has made notable strides in transparency this year. Three years ago, the company removed all details of its production portfolio from the public domain, making it impossible to assess which chemicals it produced. Additionally, DuPont was unwilling to cooperate with ChemSec. Transparency was therefore a central theme in discussions with the company, yielding significant progress. In June 2024, DuPont republished its production portfolio and confirmed active engagement with ChemSec, resulting in a 10-point improvement in its score.
Engagements with all companies will continue in 2025.

PFAS Policy engagement

To overcome the identified obstacles, stricter regulations on PFAS are essential. Currently, a legislative proposal co-submitted by the Netherlands is under review by the European Commission, aiming to completely phase out PFAS, including fluoropolymers. Members of the investor coalition, including Cardano, have actively encouraged European policymakers to adopt the proposal in its original form without any weakening amendments.

[1] PFAS stands for per- and polyfluoroalkyl substances. These are man-made substances that do not naturally occur in the environment.

Stewardship in practice

Proxy voting

Marie Payne
Responsible Investment Officer

In the second half of the year, shareholder voting activity naturally transitions from the intense proxy season of the first half to a steadier pace. Cardano voted at 626 unique meetings between July and December 2024. The main markets where votes were cast this period were China, India, the USA, Australia and the United Kingdom. Across all funds, votes were cast on 4892 proposals. 20% of management proposed resolutions were opposed and 92% of shareholder resolutions were supported. More detailed voting data for the period can be found in the statistical overview available on our stewardship page and all voting records are available in our disclosure website.

Focus on the Australian proxy season

The Australian proxy season typically occurs during the months of October and November, aligning with the country's corporate reporting calendar. During this period, most Australian publicly listed companies hold their annual general meetings (AGMs). This year, and for the fourth year in a row, the number of shareholder resolutions put to the vote declined. This is mainly due to the stringent regulatory requirements to file such resolutions, the difficulty in passing constitutional amendments which would allow advisory resolutions, as well as the shift towards mandatory climate disclosures by the government, which lessens the need for climate related shareholder resolutions. During this Australian proxy season, Cardano voted at 14 shareholder resolutions covering governance topics (electing external nominees to the board, changing articles of association) as well as environmental concerns (impact of farmed seafood on the environment, further disclosures relating to climate transition plans).

Climate related shareholder resolutions appeared on the ballot at three Australian banks: ANZ (Australia & New Zealand Banking Group), National Australia Bank Limited and Westpac Banking Corp. Cardano supported the first one (at ANZ) because the bank’s disclosures on client transition plan expectations remain insufficient and lag behind those of peers such as NAB and Westpac. Cardano did not support the resolution at the other two banks, considering that the companies are on track regarding their net zero commitments and have addressed the proponent’s specific requests in their response statement and existing disclosure. The outcomes of the votes at these banks were respectively: 28% support (ANZ), 19% support (NAB) and 37% support (Westpac).

Focus on Microsoft and Human Rights

Microsoft is one of the US tech giants with their annual general meeting in the second part of the year. At its December 2024 meeting, it faced six shareholder resolutions, four of which were supported by Cardano (the quality of the proponent was the reason not to support the other two). Three out of the four supported shareholder resolutions were on the topic of human rights risks, specifically those linked to developing military weapons, AI misinformation and disinformation, and cloud datacenters in countries with human rights concerns. This shows the importance of managing human rights risks for tech companies and the increased scrutiny from investors on the topic. The support for these resolutions is in line with Cardano’s efforts in engaging tech giants on the topic of human rights via the Big Tech and Human Rights coalition, led by the Swedish Council of Ethics.

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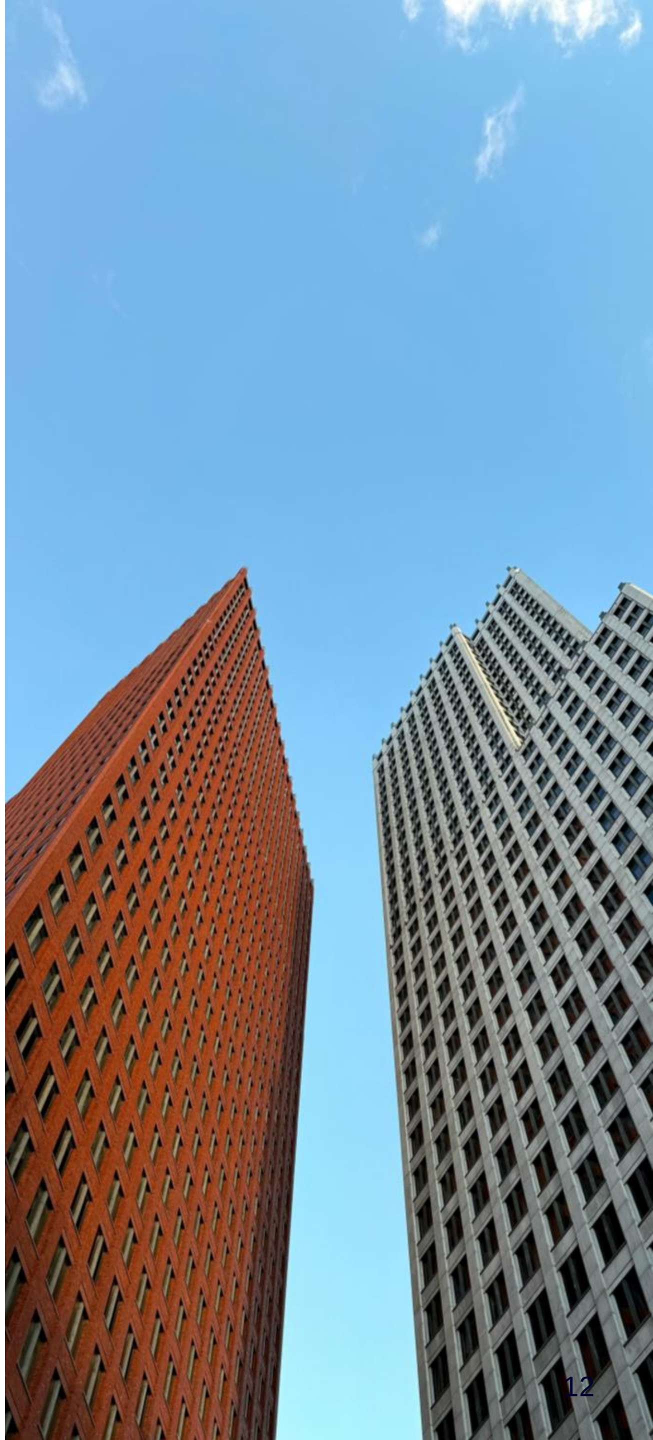

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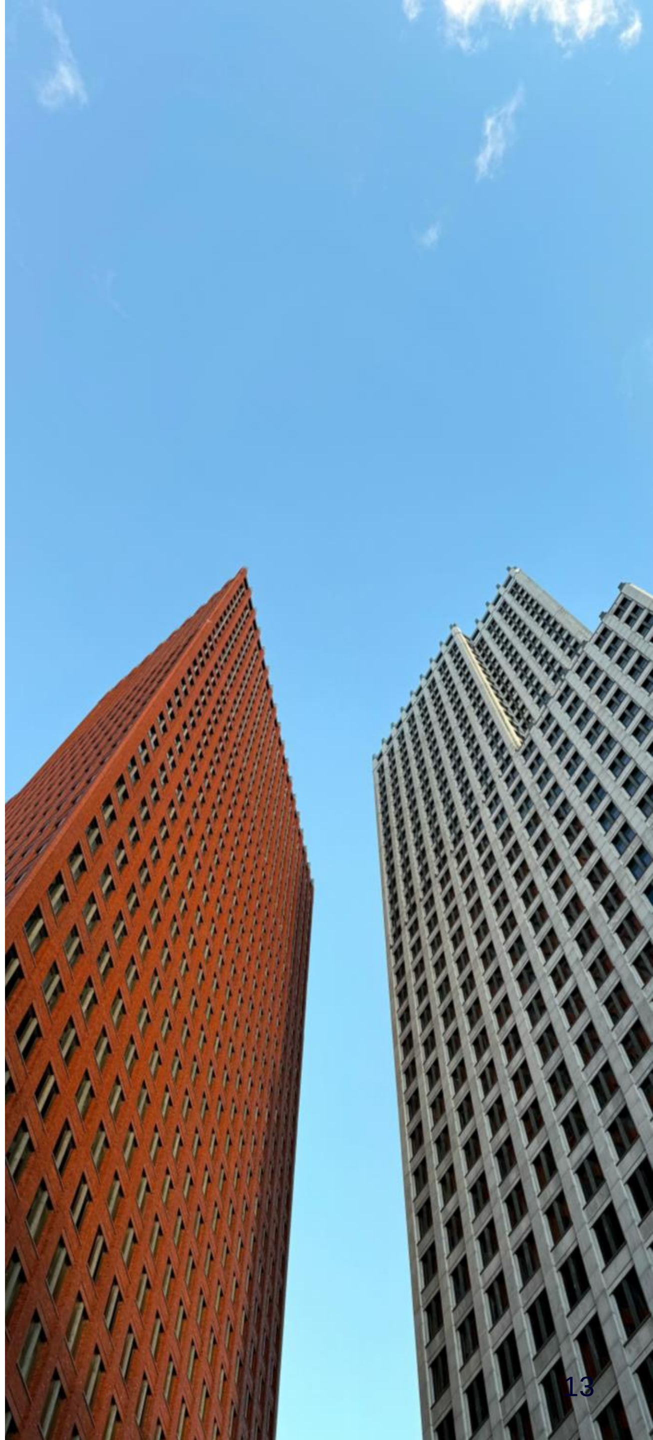
Stewardship in practice

Proxy voting

Marie Payne
Responsible Investment Officer

The aim of the coalition is to encourage the tech giants, including Microsoft to integrate human rights in their culture and business model, mitigate harm to vulnerable groups and children and remedy in cases of adverse human rights outcomes. Those resolutions gathered support from 15% (risks of weapons development), 32% (high risk countries) and 19% (AI misinformation) of shareholders.



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Investment universe

New inclusions and exclusions

Jonna Arendse
Sustainability Analyst

All investments are examined for environmental, social, and governance (ESG) issues. The assessment criteria for these topics are laid down in the investment policy based on principles related to human rights, fundamental labour rights, corruption, environmental pollution, weapons, animal welfare, and integrity, among others. These principles derive from international treaties, agreements, and best practices. It also assesses whether companies have the capacity to adapt to ongoing transitions toward a more sustainable society. Companies that lack this capacity create financial risks for the investment portfolio and can be excluded from investments.

Countries

No new countries were excluded or included.

Companies

The case studies presented here highlight some of the discussions this quarter by the Sustainability Categorization Committee based on Cardano's periodic screening. Cardano's full exclusion list can be accessed through the website under the sustainability reports section. For fund-specific benchmark and restrictions, we refer to the relevant prospectus.

BHP Billiton Limited: Producer of commodities, including different metals and coal. The company was classified as International Standards in 2022 Q3 despite having relatively strong policies. Over the years, the company has failed to mitigate the social and environmental impacts of its operations, manifesting in multiple controversies among which the Fundao tailings dam collapse. The current assessment of the company showed insufficient and inefficient remediation efforts and the company's non-compliance with previous settlements, therefore maintaining International Standard status. If the company improves on this within the next 12 months, complying with settlements and taking sufficient remediation action, and no new controversies appear, the status of the company will be reconsidered.

Mitsubishi Corporation: Conglomerate operating in various industries including the energy sector. The company was classified as Non-Adapting in 2020 Q2 due to its coal expansion plans. According to our most recent assessment, the company plans to maintain coal exposure until 2050. Additionally, in 2022 Q1 Mitsubishi was flagged for factory farming and medical testing and is still lacking policies on animal welfare. Therefore, the company remains Non-Adapting.

Meta: Social media company whose core business includes Facebook, Instagram, Messenger, and WhatsApp. Company remains At-Risk since 2020. Despite having strong policies, the company continues to be embroiled in multiple controversies regarding data privacy and security. Most infamously the Cambridge Analytica scandal involved unauthorized collection of personal data from millions of Facebook users without consent. Due to these controversies Cardano is concerned about the effectiveness and implementation of the said policies and decided to maintain an At-Risk status. Further clarification by the company on the implementation could help mitigate such concerns.

Danske Bank A/s: Largest Danish bank operating in Denmark. Finland, Sweden, Norway, and Northern Ireland. The bank was classified as At-Risk in 2020 due to its involvement in severe controversies related to anti-money laundering. This status was confirmed in 2022. In its most recent assessment, Cardano concluded that the company has significantly improved its governance framework and its ethical practices. The company has been free from controversies of a comparable nature over the past years. Further, its policies regarding financing environmental impact and data privacy have improved over the years. The company performs well for environmental factors. Therefore, it was decided to upgrade the company to Adapting status.

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Investment universe

New inclusions and exclusions

Jonna Arendse
Sustainability Analyst

Mitsui & Co: General trading company active in iron and steel, mineral, metal, mining, machinery, energy and more. The company was flagged due to its animal welfare standards being insufficient and subject to our assessment already since Q2 2024. Through its subsidiaries the company is involved in large-scale animal farming. Even though the company referenced animal welfare, Cardano had doubts about the adherence to internationally agreed best practices on farm animal welfare. Over an exchange of engagement letters, the company confirmed its compliance with main international animal welfare standards among which the recommendations of the World Organization for Animal Health (WOAH), the Five Freedoms and the 3Rs. Therefore, it was decided to maintain the company's Adapting status.

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